

Rural Consumer Markets

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Businesses that sell directly to households need customers in order to survive and tend to locate in larger places with more potential customers. Urban centers consequently have more retail stores and services than rural areas, a pattern surely noticed by anyone who has travelled between the city and the countryside. But the uneven distribution of businesses doesn't mean that rural residents shop less than other consumers. In fact, rural residents often travel farther to shop than urban residents and may still have to do without products sold only in urban areas.

A closer look at rural consumer markets confirms that rural areas have a smaller variety of retail businesses than urban areas. However, most rural consumers live in markets with a large variety of businesses and have almost as many places to shop as urban consumers. Only a small minority of rural consumers live in markets with few of the retail stores or services found in urban places.

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One out of every nine Americans lives in a rural consumer market. The average rural market has fewer retail businesses and provides more limited shopping opportunities than the average urban market. However, there is a wide range in the number of different businesses in rural markets, and a majority of rural consumers live in well-served markets with many kinds of stores and services.

Identifying Consumer Markets

Consumer markets are the geographic areas where households do their regular shopping. Consumers will travel farther to buy specialized products like computer equipment than for basic necessities like groceries, creating a hierarchy of local and regional markets. Markets with large populations have more potential customers and can support a wider variety of businesses than markets with small populations.

Most definitions of market areas follow county boundaries because counties are the basic geographic units for reporting economic data. Widely used definitions of market areas include the 172 Economic Areas designated by the Bureau of Economic Analysis and the 494 Basic Trading Areas identified by Rand McNally & Company.

This study uses an alternative definition of market areas based on "commuting zones" to examine rural shopping opportunities. The 741 commuting zones were originally developed to identify local labor markets, using journey-to-work data from the 1990 census to identify groups of counties with strong commuting ties. However, commuting zones also correspond to local

consumer markets because routine shopping trips are subject to the same time constraints as daily commuting to work.

Information about the businesses in each commuting zone was obtained from the Bureau of Labor Statistics (see "Identifying Retail Businesses," p. 9). Forty-seven different kinds of businesses that provide consumer goods or services were examined, including retail stores, service firms, and some government agencies. Households did not necessarily need all 47 types of businesses included in the study, but there was likely to be some demand for each business in most communities.

Commuting zones that included only nonmetro counties were classified as rural consumer markets, based on the 1993 Bureau of the Census definition of metro areas. Other commuting zones included at least one metro county, and were classified as urban consumer markets. Complete information on businesses was available for 672 commuting zones. The other 69 commuting zones (including 44 classified as rural markets) were excluded from the study (see "Identifying Retail Businesses").

Rural Markets Have a Smaller Variety of Businesses

Over 400 commuting zones were classified as rural consumer markets (table 1). Rural markets had smaller and poorer populations than urban markets. On average, rural markets had only 63,000 residents and a per capita income of \$16,564, while urban markets had 856,000 residents and a per capita income of \$22,346. The difference in customer demand made rural markets less attractive places for retail businesses than urban markets, particularly for businesses that needed a large customer base. Nevertheless, companies that neglected rural markets were ignoring nearly 27 million persons, or 1 out of every 9 consumers.

The average rural market had 35 of the 47 types of businesses included in the study, while the average urban market had 46 (table 1). The difference confirms that rural markets had a smaller variety of retail stores and services than urban markets. Rural consumers who needed

Table 1

Profile of consumer markets

Residents of rural consumer markets had lower incomes than urban residents, but represented one of every nine consumers

Consumer market	Number of markets	Total population, 1994	Average per capita personal income, 1994	Average number of retail business types
	<i>Number</i>	<i>Thousands</i>	<i>Dollars</i>	<i>Number</i>
Rural	422	26,701	16,564	34.8
Urban	250	214,046	22,346	45.6

Source: Compiled by ERS from Bureau of the Census 1990-94 Estimates of the Population of Counties data file, Bureau of Economic Analysis 1969-94 Regional Economic Information System data file, and Bureau of Labor Statistics 1995 ES-202 data file. Excludes 69 commuting zones without detailed business data.

products that were not sold in local shops had to travel elsewhere to buy them, have them delivered, find some kind of substitute product, or else do without.

The number of different kinds of businesses in rural markets ranged from 8 to 47, so some rural consumers had better access to

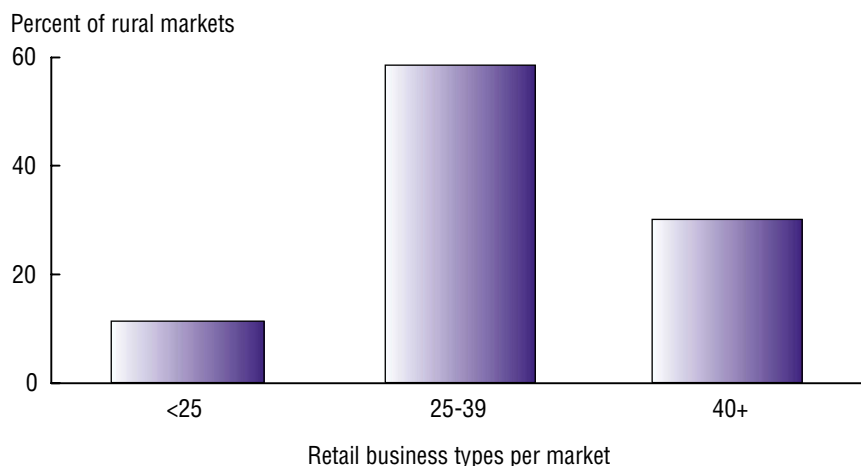
goods and services than others. There was less variation in shopping opportunities among urban markets, where the number of different

The difference in customer demand made rural markets less attractive places for retail businesses than urban markets, particularly for businesses that needed a large customer base.

Figure 1

Rural markets by number of different retail business types, 1995

Most rural markets have fewer than 40 business types



Source: Calculated by ERS using Bureau of Labor Statistics 1995 ES-202 data file.

businesses ranged from 39 to 47. The wide variation in shopping opportunities among rural markets was important for persons who preferred to live in places with a large selection of goods and services.

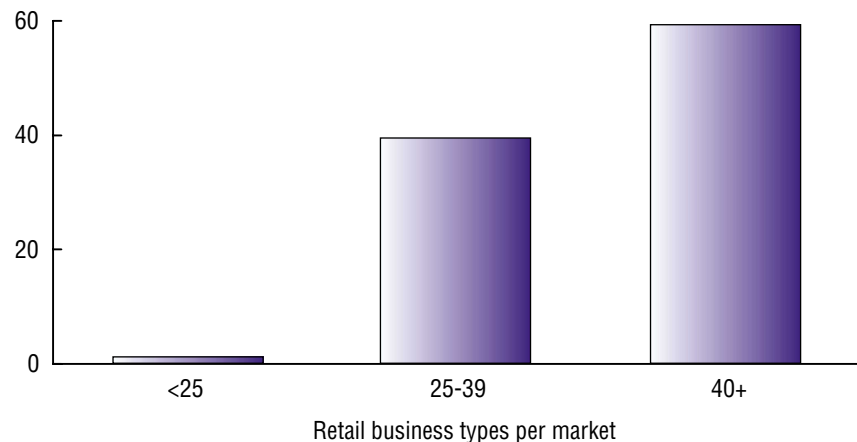
Rural markets with larger populations had more kinds of businesses. Population size was the most important single factor affecting the number of business types in rural markets when the effects of various factors (including per capita income) were examined. Because of the influence of population size on business location, rural consumers were

Figure 2

Rural consumers by number of business types in local market, 1995

Most rural consumers live in markets with 40 or more different businesses

Percent of rural consumers



Source: Calculated by ERS using Bureau of Labor Statistics 1995 ES-202 data file and Bureau of Census data.

concentrated in markets with more businesses. Well-served markets with 40 or more business types accounted for 30 percent of rural markets but included 59 percent of rural consumers (figs. 1 and 2). In contrast, poorly served markets with fewer than 25 businesses accounted for 11 percent of rural markets but only 1 percent of rural consumers.

Well-served rural markets with 40 or more kinds of businesses were located in all parts of the country (fig. 3). These markets had an average population of nearly 125,000 persons, providing a large customer base for businesses that sold specialized products (table 2). The total population of well-served markets increased nearly 5 percent during the early 1990's, in part because the wide variety of retail stores and services may have helped attract new residents.

Some well-served rural markets had a greater variety of businesses than many urban markets. For example, 31 rural markets had 45 or more kinds of businesses, and

provided more varied shopping opportunities than the 56 urban markets with fewer than 45 kinds of businesses. Four rural markets—as well as 102 urban markets—had all 47 businesses included in the study. These rural markets were centered around Flagstaff, AZ; Watertown and Plattsburgh, NY; and Athens, OH. Each of these markets had the

same range of retail goods and services found in most large cities. (Flagstaff was reclassified as a metro area in mid-1995 by the Bureau of the Census, and has since become an urban market.)

Poorly served rural markets with fewer than 25 kinds of businesses were concentrated in the Great Plains (fig. 3). These markets had an average population under 7,000 persons, and were unsuitable locations for a business requiring a large customer base. The limited variety of retail stores and services was an obstacle to local development, and may help explain why the total population of poorly served markets declined during the early 1990's (table 2). The three markets with the fewest businesses each included only one county, and were located in sparsely inhabited areas: Wayne County in southern Utah, Motley County in the Texas Panhandle, and Garfield County in eastern Montana. Each of these markets had fewer than 10 business types and 2,300 residents, and 2 of the 3 lost population during the early 1990's.

Table 2

Rural consumer markets

A majority of rural consumers lived in well-served markets with 40 or more different retail stores and services

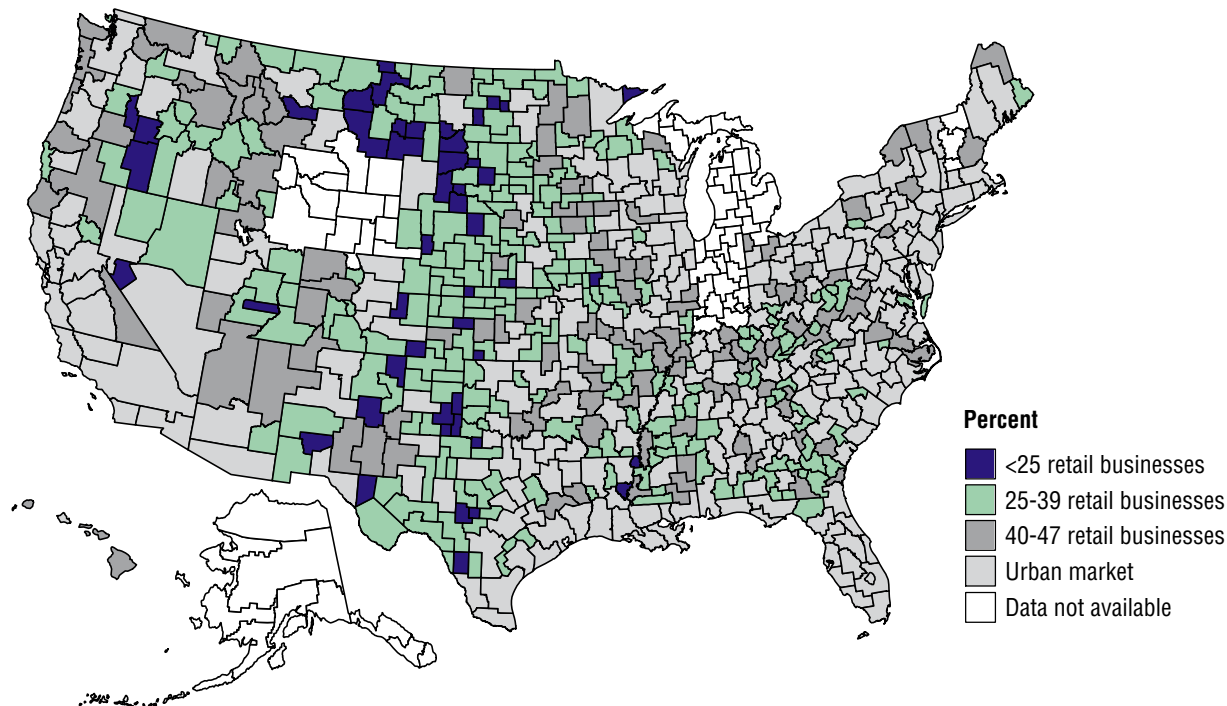
Number of retail business types	Number of markets	Total population, 1994	Average population per market, 1994	Change in total population, 1990-94
	Number	-----Thousands-----		Percent
<25	48	326	6.8	-0.5
25-39	247	10,546	42.7	2.3
40-47	127	15,829	124.6	4.6

Source: Compiled by ERS from Bureau of the Census 1990-94 Estimates of the Population of Counties data file and Bureau of Labor Statistics 1995 ES-202 data file. Excludes 44 commuting zones without detailed business data.

Figure 3

Rural consumer markets

Poorly served rural markets were concentrated in the Great Plains



Source: Calculated by ERS using data from the Bureau of Labor Statistics.

Some Businesses Are Rarely Found in Rural Areas

Three kinds of businesses—banks, grocery stores, and eating and drinking places—were present in every rural market (table 3). Another 17 businesses were present in at least 90 percent of rural markets, including gas stations, drug stores, doctor's offices, hospitals, hardware stores, florists, and beauty shops. Most of these businesses provided basic necessities like gasoline or medical care. The others sold products like cut flowers that were in wide demand but had low overhead costs, allowing them to locate in most rural markets (fig. 4). The remaining businesses were harder to find in rural areas. For example, four-fifths of rural markets had bakeries (fig. 5), but only one-half had computer stores (fig. 6) and just one-fifth had camera stores (fig. 7), leaving large areas of the country without a local dealer

specializing in computer or photographic equipment.

Residents of rural markets without specialized businesses like camera stores generally had to travel elsewhere or else arrange delivery to obtain specialized products like camera lenses or tripods. However, consumers could buy many other products sold by specialized businesses in grocery stores or convenience stores, which carry a diversified line of products. Grocery stores offer many of the same goods sold by drug stores, liquor stores, bakeries, candy stores, fruit and vegetable markets, tobacco stores, and newstands.

Convenience stores are often combined with gas stations, and typically sell prepared foods, groceries, candy, packaged baked goods, health and beauty items, alcohol and tobacco products, and newspapers and magazines (see "Convenience Stores"). The wide-

spread distribution of grocery stores and gas station-convenience stores in rural areas ensures that a large variety of goods is available to rural consumers, although specialized dealers like bakeries may offer a larger selection and better service.

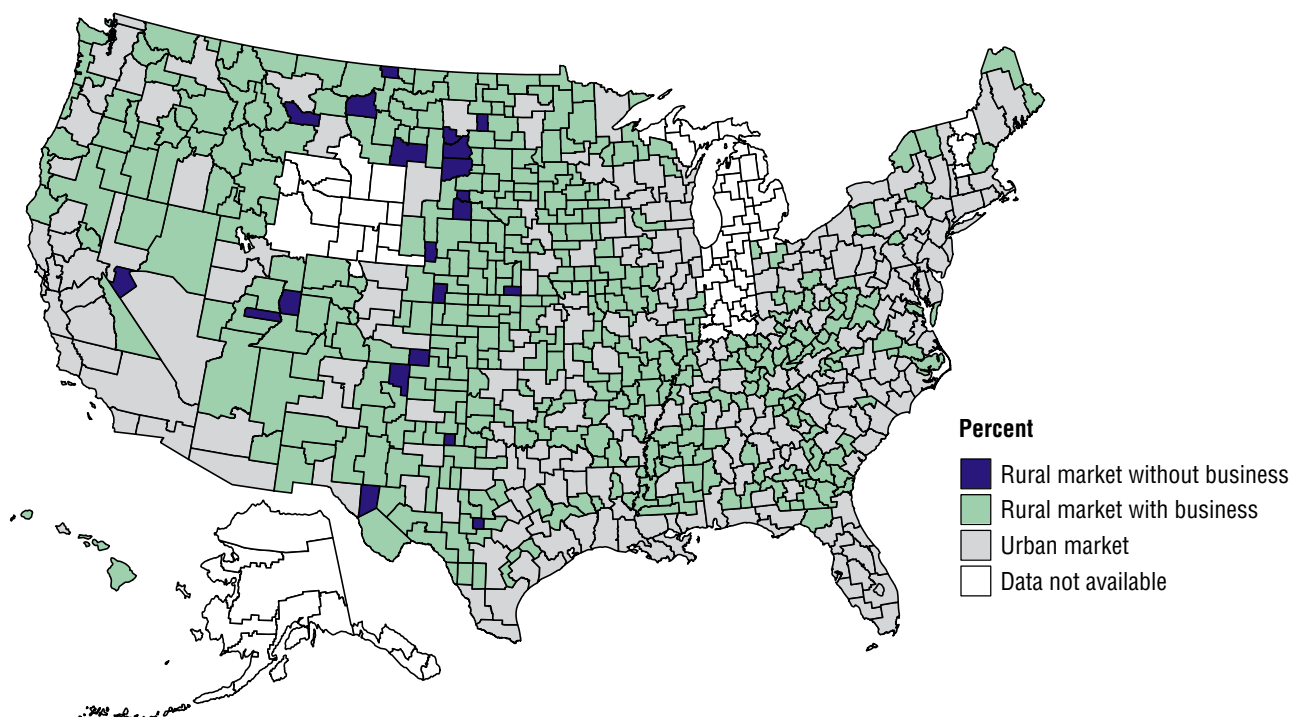
Some rural markets that lacked a particular retail business may have been large enough to support that kind of business. However, chance events may have resulted in the temporary closure or failure of an existing business, especially in markets that were too small to support more than one shop of the same kind.

Retail businesses were much easier to find in urban than rural areas. Twenty-eight businesses, ranging from banks and grocery stores to men's clothing stores and health clubs, were present in every urban market. Only five businesses—intermediate-care facilities, RV parks, fruit and vegetable markets,

Figure 4

Florists by consumer market

Most rural markets had at least one florist

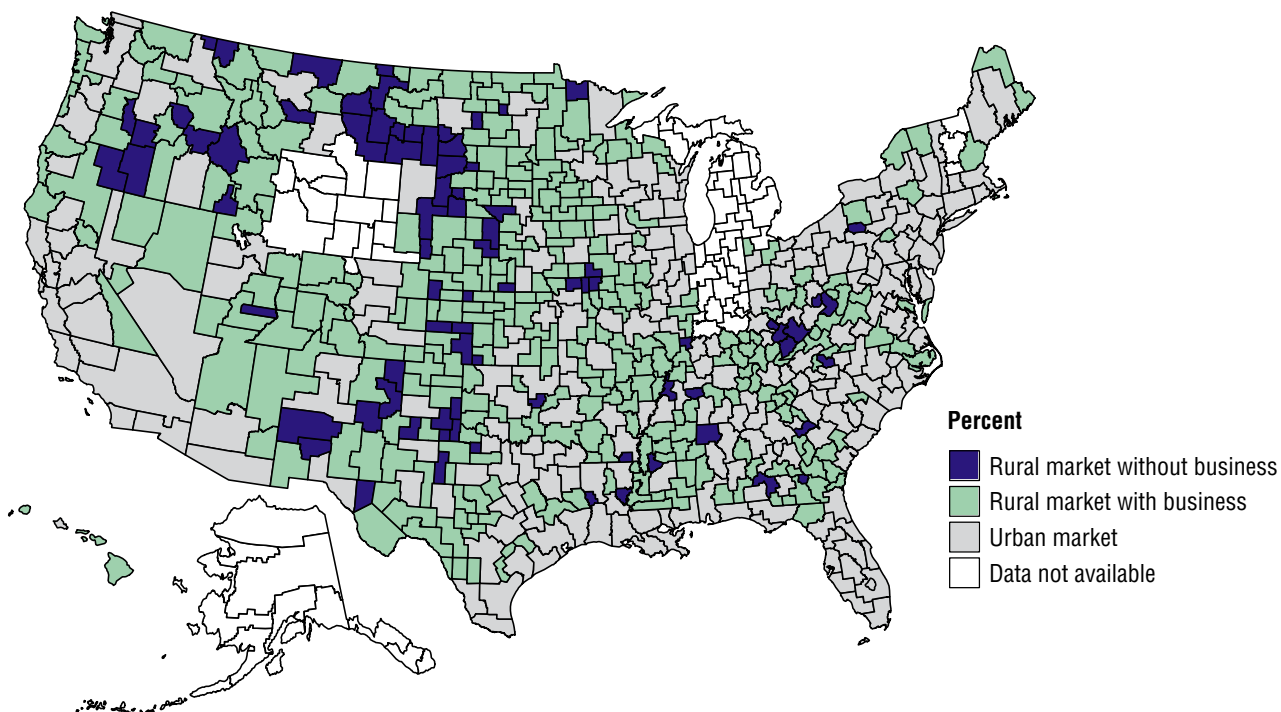


Source: Calculated by ERS using data from the Bureau of Labor Statistics.

Figure 5

Bakeries by consumer market

Four out of five rural markets had a bakery

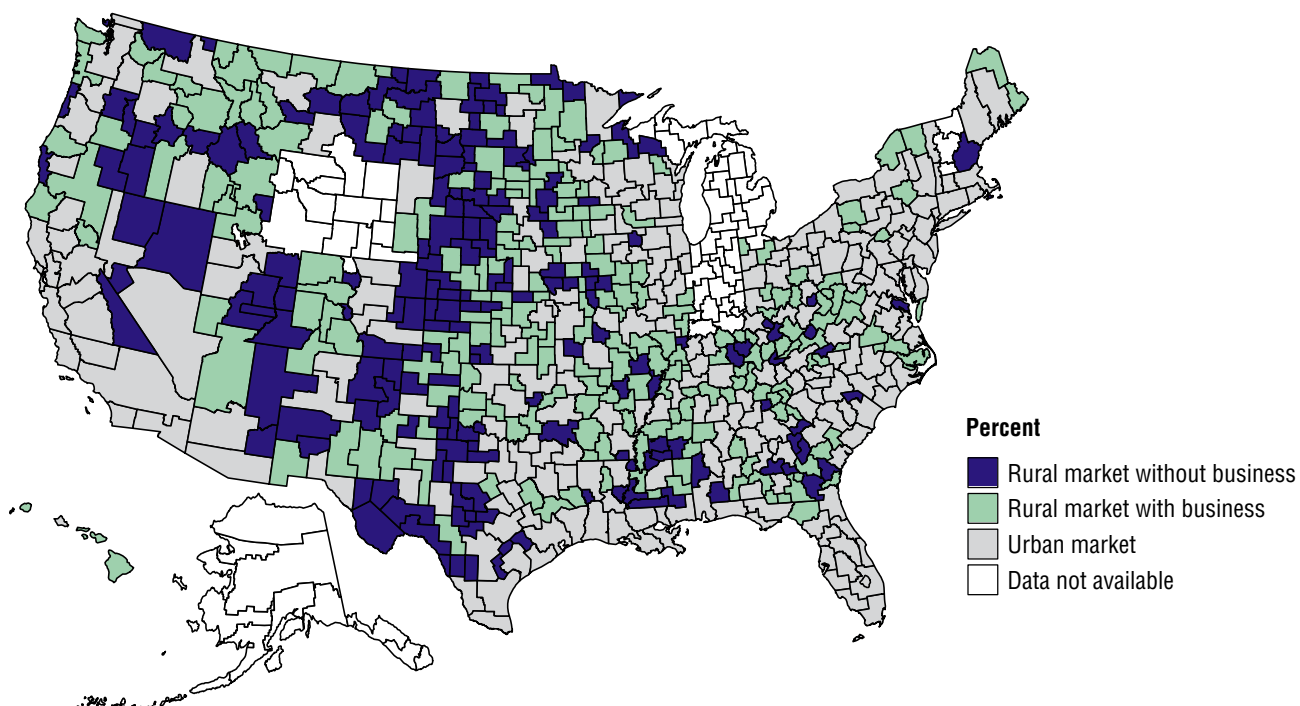


Source: Calculated by ERS using data from the Bureau of Labor Statistics.

Figure 6

Computer and software stores by consumer market

A majority of rural markets had a computer store

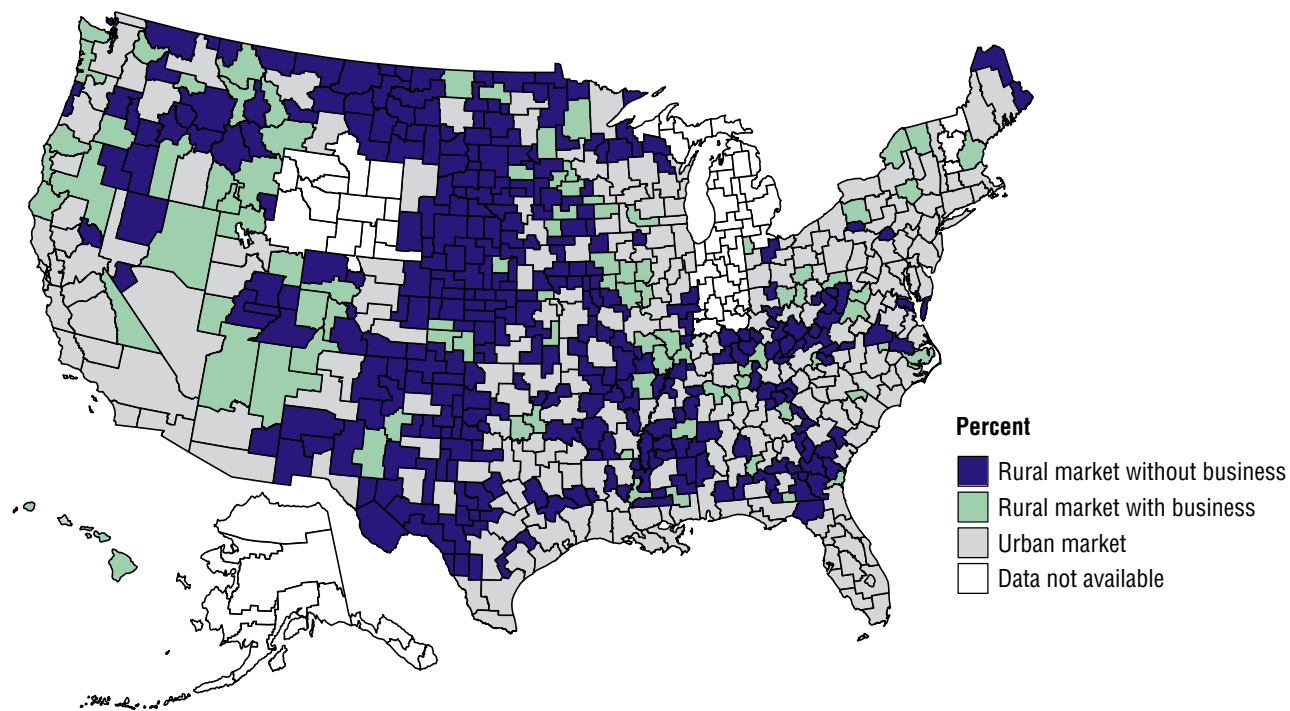


Source: Calculated by ERS using data from the Bureau of Labor Statistics.

Figure 7

Camera and photo supply stores by consumer market

Only one-fourth of rural markets had a camera store



Source: Calculated by ERS using data from the Bureau of Labor Statistics.

Table 3

Retail businesses in rural consumer markets, 1995

Some businesses were present in most rural markets, but others were rarely found in rural areas

Business (SIC codes)	Markets with at least one establishment		Markets with two or more establishments	
	Rural	Urban	Rural	Urban
<i>Percent</i>				
Bank/savings & loan (6021, 6022, 6029, 6035, 6036)	100.0	100.0	98.1	100.0
Eating/drinking place (5812, 5813)	100.0	100.0	100.0	100.0
Grocery store (5411)	100.0	100.0	99.5	100.0
Gasoline service station (5541)	99.1	100.0	98.1	100.0
Hotel/motel (7011)	99.1	100.0	96.2	100.0
Drug store (5912)	98.3	100.0	92.9	100.0
Legal advice (8111)	98.3	100.0	96.9	100.0
Doctor's office/clinic (8011, 8031)	98.1	100.0	93.4	100.0
General hospital (8062)	97.6	100.0	81.0	99.2
Dentist (8021)	96.9	100.0	92.4	100.0
Department/variety/general store (5311, 5331, 5399)	96.9	100.0	93.1	100.0
Accounting/tax return preparation (7291, 8721)	96.7	100.0	93.4	100.0
New/used motor vehicle dealer (5511, 5521)	96.7	100.0	92.2	100.0
Hardware store (5251)	95.7	100.0	86.5	100.0
Florist (5992)	95.0	100.0	87.9	100.0
Child day care (8351)	94.8	100.0	87.0	100.0
Funeral home (7261)	93.4	100.0	80.8	99.6
Beauty shop (7231)	92.4	100.0	87.2	100.0
Women's clothing/accessories (5621, 5632)	90.8	100.0	78.0	100.0
Optometrist (8042)	90.0	100.0	77.0	100.0
Skilled nursing facility (8051)	87.7	100.0	73.0	100.0
Video tape rental (7841)	85.8	100.0	73.7	100.0
Liquor store (5921)	84.4	98.0	69.7	96.8
Movie theatre/drive-in (7832, 7833)	81.0	98.8	52.1	98.0
Bakery (5461)	80.8	99.6	61.8	99.6
Bowling center (7933)	79.1	100.0	47.6	94.8
Shoe store (5661)	78.9	100.0	67.3	100.0
Library (8231)	77.5	97.2	59.2	89.2
Home health care (8082)	76.8	99.2	61.8	98.4
Photo portrait studio (7221)	72.5	100.0	49.5	99.2
Book store (5942)	65.4	100.0	49.5	100.0
Men's clothing/accessories (5611)	63.3	100.0	42.2	99.6
College/university (8221)	63.0	98.4	39.1	91.2
Health club/gymnasium (7991)	58.5	100.0	32.9	98.0
Computers/computer software (5734)	55.0	98.8	31.5	97.6
Eyeglasses/optician (5995)	53.6	98.8	34.1	98.0
Intermediate-care facility (8052)	51.9	80.8	32.9	61.6
Children's and infant's wear (5641)	50.0	94.8	20.6	85.2
Museum/art gallery (8412)	47.6	94.8	25.4	81.6
RV park/campground (7033)	46.2	88.0	28.4	76.8
Records/tapes (5735)	44.5	98.8	24.9	96.4
Candy/nut store (5441)	34.1	93.6	16.1	82.0
Passenger car rental (7514)	28.9	96.4	16.6	90.0
Fruit and vegetable market (5431)	25.1	84.0	10.0	71.2
Camera/photo supply (5946)	22.3	90.4	6.6	74.8
Tobacco store (5993)	19.7	79.2	6.9	55.2
Newstand (5994)	14.0	66.4	3.3	48.8

Source: Compiled by ERS from Bureau of Labor Statistics 1995 ES-202 data file. Excludes 69 commuting zones without detailed business data.

tobacco stores, and newstands—were present in fewer than 90 percent of urban markets.

Rural Consumers Have Fewer Alternative Places To Shop

A retail business may be represented in a market by one or more separate shops or establishments. Consumers have more choices about where to shop in markets with two or more establishments, and also benefit from business competition when the establishments are owned by different firms. Even when one firm owns all of the establishments in a market, consumers can still choose where to shop based on convenience. Unfortunately, this study could not distinguish markets with competing firms because our information on businesses was based on counts of establishments rather than firms.

Some retail businesses were represented by at least two establishments in most rural markets, giving rural consumers a choice of places to shop (table 3). Every rural market had at least two eating and drinking places, although it was unclear whether every market actually had a choice of places to eat because this category included both restaurants and bars. Eleven other businesses—including banks, grocery stores, gas stations, drug stores, doctor's and dentist's offices, and car dealers—had multiple establishments in 90 percent or more of rural markets. Most rural consumers consequently had a choice of places to buy the goods or services provided by these businesses.

Sixteen other businesses ranging from hardware stores to movie theatres had multiple establishments in at least half of all rural markets. The remaining businesses, ranging from photo portrait studios to newstands, had multiple estab-

Identifying Retail Businesses

Information about the retail businesses in each commuting zone in 1995 was obtained from the Covered Employment and Wages program operated by the Bureau of Labor Statistics (BLS), commonly called the ES-202 program. Under this program, the BLS tabulates employment and wages by industry based on quarterly reports submitted by employers subject to State unemployment insurance laws and by Federal agencies. The ES-202 data file includes monthly counts of the number of establishments with hired employees classified by 1987 Standard Industrial Classification (SIC) code and county. Self-employed workers and certain categories of agricultural, railroad, government, domestic, and nonprofit employees are excluded. This study used an unsuppressed version of the ES-202 file obtained by special arrangement with BLS. Sixty-nine commuting zones were located wholly or partly in five States (Alaska, Indiana, Michigan, New Hampshire, and Wyoming) that did not authorize release of the unsuppressed ES-202 data, and were therefore excluded from the study.

The four-digit SIC codes on the ES-202 file reflect the primary economic activity of establishments. Establishments that could not be classified in a single SIC code because they were engaged in two or more distinct activities were treated as two or more separate establishments and assigned the appropriate SIC code for each activity when store records distinguished the employees, payroll, and sales associated with each activity. Otherwise, establishments engaged in two or more distinct activities were classified according to the activity responsible for the largest share of sales, receipts, or revenue.

The different kinds of retail businesses in each commuting zone were identified using the ES-202 file. The study focused on 47 businesses that met 2 criteria. First, the four-digit SIC code for the business was defined narrowly enough to ensure that establishments classified under the code provided the same goods or services. Second, most establishments classified under the code were likely to have hired employees, and were therefore covered by the ES-202 program and included in the ES-202 file. Some businesses, such as household appliance stores (SIC 5722), did not meet the first criterion because establishments classified under this code did not all sell the same kinds of appliances. Other businesses, such as barber shops (SIC 7241), did not meet the second criterion because many establishments were operated by self-employed owners who did not have any hired employees.

In several cases, two or more SIC codes were combined into a single category because the establishments classified under each code provided essentially the same goods or services. For example, the business identified as “banks and savings and loans” in this study includes establishments classified under five separate SIC codes: national banks (SIC 6021), State banks (SIC 6022), other commercial banks (SIC 6029), federally chartered savings institutions (SIC 6035), and other savings institutions (SIC 6036). The SIC codes for each retail business included in the study are reported in table 3.

Each retail business was considered to be present in a commuting zone when the average monthly number of establishments in the commuting zone during 1995 was one or more. Businesses represented by two or more establishments in a commuting zone were also distinguished from those represented by only one establishment.

lishments in fewer than half of rural markets.

Business owners benefited from a local monopoly in markets where a retail business was represented by only one establishment. Businesses that were most likely to have a monopoly in rural markets included movie theaters, bowling centers, health clubs, and children’s clothing stores (table 3). Each of these businesses was represented by a single

establishment in one-fourth or more of all rural markets. (The proportion of markets with local monopolies is determined by subtracting the percent with two or more establishments from the percent with at least one establishment.)

Retail businesses were more likely to have multiple establishments in urban than rural markets, so urban consumers had more alternative places to shop than rural con-

sumers. Twenty-two businesses had multiple establishments in every urban market. Another 15 businesses had multiple establishments in at least 90 percent of urban markets.

Local Shopping Opportunities Matter

The uneven geographic distribution of retail businesses affects rural consumers. A majority of rural con-



Shopping center. Photo courtesy Jack Harrison.

sumers live in well-served markets with at least 40 different kinds of businesses, and can shop locally for a wide range of goods and services. However, other rural consumers live in markets with fewer businesses and a smaller range of goods and services. Residents of these areas can obtain additional products by travelling elsewhere or having them delivered, but long-distance shopping trips and delivery charges raise the costs of goods and services. The additional expense increases the cost of living outside well-served markets, and may make such areas less attractive than other places for most people.

Rural communities are also affected by the uneven distribution of retail businesses. People looking for new homes in rural areas tend to settle in well-served markets where local shops offer a wide range of goods and services. Other areas with fewer businesses are unable to provide the same variety of shopping opportunities, and are

less attractive to potential residents. Rural communities that fail to attract enough new residents to replace people who move away or die are likely to experience a decline in population, and risk losing businesses as their population declines. Communities that lose

businesses become even less attractive to potential residents, accelerating the cycle of population loss and economic decline.

Some recent trends in the retail sector of the U.S. economy have made it easier for rural consumers to order products that are not avail-

Convenience Stores

There were over 82,000 convenience stores in the United States in 1995. Nearly 78 percent of these establishments sold gasoline, as well as groceries and a variety of other products. The 1987 SIC system does not include a four-digit code for convenience stores. Most convenience stores are therefore classified as either gas stations (SIC 5541) or grocery stores (SIC 5411) in the ES-202 data file, depending on store recordkeeping practices and the share of total sales from gasoline, groceries, and other items. Gasoline accounted for three-fifths of total annual sales for the convenience store industry, suggesting that most convenience stores that sold gasoline were classified as gas stations. The 1987 SIC system was superseded by the North American Industry Classification System (NAICS) in 1997. It will be easier to identify convenience stores when government business data are tabulated by the NAICS because the new scheme includes two five-digit codes for convenience stores: convenience stores without gas (NAICS 44512) and gas stations with convenience stores (NAICS 44711).

able in local stores. These trends include the growing popularity of catalog shopping and the rapid increase in the number of products for sale over the Internet. Other trends have facilitated long-distance shopping trips, especially the construction of giant shopping malls that are located near tourist attractions or else have become attractions in their own right. The most

notable example is the Mall of America in Bloomington, MN, which now attracts 35 to 40 million annual visitors from surrounding States. Rural consumers who live outside well-served markets can take advantage of these trends to obtain a wider variety of goods and services, but they are unlikely to ever have as many local places to shop as other Americans.

For Further Reading . . .

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